

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <b>Kalkaska Public Transit Authority</b>	County <b>Kalkaska</b>
Fiscal Year End <b>9/30/07</b>	Opinion Date <b>12/13/07</b>	Date Audit Report Submitted to State <b>3/25/08</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) <b>James M. Anderson, P.C.</b>		Telephone Number <b>(989) 563-2450</b>		
Street Address <b>P.O. Box 255</b>		City <b>Roscommon</b>	State <b>MI</b>	Zip <b>48653</b>
Authorizing CPA Signer 		Printed Name <b>James M. Anderson, CPA</b>		License Number <b>1101017419</b>

Digitally signed by James M. Anderson, CPA  
DN: cn=James M. Anderson, c=US, o=James M. Anderson, P.C., email=jma@m33access.com  
Date: 2008.03.25 23:10:35 -0400

**KALKASKA PUBLIC TRANSIT AUTHORITY  
AUDIT REPORT  
YEAR ENDED SEPTEMBER 30, 2007**

# KALKASKA PUBLIC TRANSIT AUTHORITY

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## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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### INDEPENDENT AUDITOR'S REPORT

December 13, 2007

Board of Directors  
Kalkaska Public Transit Authority  
Kalkaska, MI 49646

I have audited the accompanying financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements of the Kalkaska Public Transit Authority as of and for the year ended September 30, 2007, as listed in the table of contents. These statements are the responsibility of the Transit's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Kalkaska Public Transit Authority, as of September 30, 2007, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 13, 2007, on my consideration of the Kalkaska Public Transit Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of my audit.

MEMBER MACPA and AICPA

Page 2  
Board of Directors  
Kaskaskia Public Transit Authority  
December 13, 2007

The management's discussion and analysis on page 3-7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kaskaskia Public Transit Authority financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

KALKASKA PUBLIC TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007

***Using this Annual Report***

Our discussion and analysis of the Kalkaska Public Transit Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

***Overview of the Financial Statements***

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Authority:

- . The first two statements are financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Authority's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure the Authority's financial health or position.
- . The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Authority as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

***Reporting the Transit Authority as a Whole***

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and change in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received and paid.

KALKASKA PUBLIC TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority you need to consider additional non-financial factors such as changes in the County's property tax base, the condition of the Authority's vehicles, and changes in the laws related to the operating assistance received from the Federal and State government.

***Financial Analysis of the Transit Authority as Whole***

The Authority's net assets decreased approximately 9%, or \$247,951, from \$2,767,268 to \$2,519,317 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Net Assets

The overall financial position declined in 2007. The unrestricted net assets decreased by \$30,562 and the net contributed equity and investment in capital assets decreased by \$217,389. The primary reasons for the overall decrease was the decrease of \$157,189 in capital grants in 2007 and a lump sum retirement contribution of \$358,859.

The net assets as of the year ended September 30, 2007, are as follows:

	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$1,569,842	\$1,747,419	\$(177,577)	(10.16)
Capital Assets	<u>988,228</u>	<u>1,195,617</u>	<u>(207,389)</u>	<u>(17.35)</u>
Total Assets	<u>2,558,070</u>	<u>2,943,036</u>	<u>(384,966)</u>	<u>(13.08)</u>
Current Liabilities	31,743	169,556	(137,813)	(81.28)
Noncurrent Liabilities	<u>7,010</u>	<u>6,212</u>	<u>798</u>	<u>12.85</u>
Total Liabilities	<u>38,753</u>	<u>175,768</u>	<u>(137,015)</u>	<u>(77.95)</u>
Net Assets				
Contributed equity	529,088	579,681	(50,593)	(8.73)
Invested in Capital Assets	459,140	625,936	(166,796)	(26.65)
Unrestricted	<u>1,531,089</u>	<u>1,561,651</u>	<u>(30,562)</u>	<u>(1.96)</u>
Total Net Assets	<u>\$2,519,317</u>	<u>\$2,767,268</u>	<u>\$(247,951)</u>	<u>(8.96)</u>

KALKASKA PUBLIC TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007

Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Charges for Services	\$ 171,117	\$ 165,589	\$ 5,528	3.34
Nonoperating Revenue				
Taxes Levied for Authority	168,316	155,705	12,611	8.10
State of Michigan Operating Grants	360,414	231,704	128,710	55.59
Federal Operating Grants	123,029	99,783	23,246	23.29
County Grants	37,807	194,996	(157,189)	(80.61)
Interest	63,722	20,411	43,311	212.19
Gain on Sale of Fixed Assets	<u>-0-</u>	<u>3,500</u>	<u>(3,500)</u>	<u>(100.00)</u>
Total Revenue	<u>924,405</u>	<u>871,688</u>	<u>52,717</u>	<u>6.05</u>
Operating Expense				
Salaries and Wages	297,278	291,680	5,598	1.92
Fringe Benefits	515,188	139,806	375,382	268.50
Depreciation	245,196	250,584	(5,388)	(2.15)
Other	<u>114,694</u>	<u>133,226</u>	<u>(18,532)</u>	<u>(13.91)</u>
Total Operating Expense	<u>1,172,356</u>	<u>815,296</u>	<u>357,060</u>	<u>43.79</u>
Income (Loss)	(247,951)	56,392	(304,343)	(539.69)
Beginning Net Assets	<u>2,767,268</u>	<u>2,710,876</u>	<u>56,392</u>	<u>2.08</u>
Ending Net Assets	<u><u>\$2,519,317</u></u>	<u><u>\$2,767,268</u></u>	<u><u>\$ (247,951)</u></u>	<u><u>(8.96)</u></u>



KALKASKA PUBLIC TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007

***Capital Asset and Debt Administration***

At September 30, 2007, the Authority had \$988,228 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$207,389 or 17.35% as follows:

	<u>2007</u>	<u>2006</u>	<u>Total Percentage Change 2006-2007</u>
Capital Assets Not Being Depreciated			
Land	\$ <u>10,000</u>	\$ <u>10,000</u>	<u>0.00</u>
Subtotal	<u>10,000</u>	<u>10,000</u>	<u>0.00</u>
Capital Assets Being Depreciated			
Building	1,219,675	1,181,868	3.20
Vehicles	1,469,015	1,499,043	(2.00)
Equipment	<u>243,027</u>	<u>243,027</u>	<u>0.00</u>
Subtotal	<u>2,931,717</u>	<u>2,923,938</u>	<u>0.26</u>
Total Capital Assets	<u>2,941,717</u>	<u>2,933,938</u>	<u>0.27</u>
Total Accumulated Depreciation	<u>1,953,489</u>	<u>1,738,321</u>	<u>12.38</u>
Total Net Capital Assets	<u>\$ 988,228</u>	<u>\$1,195,617</u>	<u>(17.35)</u>

Please refer to the notes of the financial statements for more detailed information.

KALKASKA PUBLIC TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007

***Economic Factors and Next Year's Budget***

Kalkaska Public Transit Authority (KPTA) is a county wide transportation system which began operating in October, 1984. It was reorganized under P.A. 196 of Public Acts of 1986 in 1989. KPTA has a five (5) person Board of Directors. Board members are appointed as follows: One (1) person is appointed by the Village of Kalkaska Board, one (1) person appointed by the Kalkaska Township Association, two (2) members appointed by the Kalkaska County Board of Commissioners, one of which must be a high school senior student and the fifth member is appointed by the KPTA Board of Directors.

The KPTA Board of Directors meet the third Thursday of each month at the KPTA building located at 1251 Island Lake Road, Kalkaska, Michigan 49646. At each meeting KPTA business is discussed and necessary action taken. Monthly reports are also reviewed and acted upon. The Local Advisory Committee (LOC) meets annually.

KPTA is financially strong. We feel that if current funding is reduced or discontinued our current fund balance will allow us to make reasonable cuts in service and expenses. If a total shut down is required, KPTA feel that it would be an organized reduction allowing employees to seek other employment while not suffering a loss of income for any period of time.

KPTA has received approval of a \$600,000 grant for a wash bay and fueling station. We now realize that this isn't enough money to complete both projects. Construction on the wash bay will start the 1<sup>st</sup> part of January, 2008 with completion within 180 days if weather permits. Additional funding will be requested in the FY 2007/2008 year for funding for the fueling station.

Annual expenses are and always have been a concern of KPTA management and the Board of Directors. Cost of fuel is a major concern for management. Most of our vehicles are diesel and when we started changing our vehicles over from gasoline to diesel fuel we did so because of a smaller cost and longevity of diesel engines. Diesel fuel is now 25% higher than gasoline.

KPTA employees continue to receive an above average wage and benefit package for this area of Michigan. Studies of wages/benefits paid to employee of other transit agencies are reviewed each year. Management completes this study for review of the Board of Directors and a decision is then made for the next fiscal year.

Ronald C. Kea, Director

KALKASKA PUBLIC TRANSIT AUTHORITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007

ASSETS

Current Assets:

Cash and investments	\$ 1,412,020
Accounts receivable	16,312
Grants receivable	132,222
Prepaid expenses	<u>9,288</u>

Total Current Assets	1,569,842
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Property and equipment, less accumulated depreciation	<u>988,228</u>
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Total Assets	<u>2,558,070</u>
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LIABILITIES

Current Liabilities:

Accounts payable	8,426
Accrued payroll	<u>23,317</u>

Total Current Liabilities	<u>31,743</u>
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Long-Term Liabilities:

Compensated absences	<u>7,010</u>
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Total Long-Term Liabilities	<u>7,010</u>
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NET ASSETS

Contributed equity	529,088
Invested in Capital Assets, net of related debt	459,140
Unrestricted	<u>1,531,089</u>

Total Net Assets	<u><u>\$ 2,519,317</u></u>
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The accompanying notes are an integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2007

Operating Revenues	
Charges for services	
Fare box and special fares	\$ 167,902
Vehicle maintenance	<u>3,215</u>
Total operating revenues	<u>171,117</u>
Operating Expenses	
Salaries and wages	297,278
Fringe benefits	515,188
Services	6,539
Materials and supplies	73,125
Utilities	19,871
Casualty and liability insurance	14,789
Miscellaneous	370
Depreciation	<u>245,196</u>
Total operating expenses	<u>1,172,356</u>
Operating income (loss)	<u>(1,001,239)</u>
Non-operating Revenues (expenses)	
Property taxes	168,316
Federal	123,029
State	360,414
State and Federal capital grants	37,807
Interest/investment income	<u>63,722</u>
Total non-operating revenues	<u>753,288</u>
Change in Net Assets	(247,951)
Net Assets - October 1, 2006	<u>2,767,268</u>
Net Assets - September 30, 2007	<u><u>\$ 2,519,317</u></u>

The accompanying notes are a integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR YEAR ENDED SEPTEMBER 30, 2007

Cash flows from operating activities	
Cash receipts from operations	\$ 176,327
Cash payments for supplies and services	(236,005)
Cash payments for employee services and fringes	<u>(817,595)</u>
Net cash provided (used) by operating activities	<u>(877,273)</u>
Cash flows from noncapital financing activities	
Property taxes	168,316
Federal operating grants	96,289
State operating grants	<u>351,674</u>
Net cash provided (used) by noncapital financing activities	<u>616,279</u>
Cash flows from capital and related financing activities	
Federal/State capital grants	37,807
Purchase of fixed assets	<u>(37,807)</u>
Net cash provided (used) by capital and related financing activities	<u>-0-</u>
Cash flows from investing activities	<u>63,722</u>
Investment income	
Net cash provided (used) in investing activities	<u>63,722</u>
Net increase (decrease) in cash and cash equivalents	(197,272)
Cash and Cash Equivalents - October 1, 2006	<u>1,609,292</u>
Cash and Cash Equivalents - September 30, 2007	<u><u>\$ 1,412,020</u></u>

The accompanying notes are an integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR YEAR ENDED SEPTEMBER 30, 2007

Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	<u>\$(1,001,239)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	245,196
Decrease (increase) in accounts receivable	5,210
Decrease (increase) in prepaid expenses	10,575
Increase (decrease) in accounts payable	(131,886)
Increase (decrease) in accrued liabilities	(5,927)
Increase (decrease) in compensated absences	<u>798</u>
Total adjustments	<u>123,966</u>
Net cash provided (used) by operating activities	<u><u>\$ (877,273)</u></u>

The accompanying notes are an integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The Kalkaska Public Transit Authority was created on October 1, 1987 to provide transit services to the residents of Kalkaska County.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kalkaska Public Transit Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed.

Financial Reporting Entity - The Public Transit is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this state requirement.

Fixed Assets and Depreciation - Fixed assets are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method.

Inventory - Inventories are recorded as expenditures in the year of purchase. The amounts on hand at September 30, 2007 were determined to be immaterial and have therefore not been recorded on the books.

Property Taxes - Property taxes are levied as of December 1st of each year and are due by the last day of the following February. The taxes are collected by the local units of government within the County and are periodically remitted to the Transit through the County during the collection period. The taxes are recognized as revenue in the year in which payment is due.

Contributed Capital - Prior to October 1, 2001, proceeds received from the State and the U.S. Department of Transportation, in accordance with contracts to purchase fixed assets were credited to Contributed Capital and were not recorded as revenue. Depreciation of fixed assets purchased with these funds is charged against Contributed Capital.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

KALKASKA PUBLIC TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE C - VACATION AND SICK LEAVE

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation time does not accumulate from year to year except by mutual agreement between the Transit and the employees.

Sick leave is granted without pay upon application from the employee for illness or injury subject to the employer's right to request medical proof of disability.

The current portion of compensated absence benefits are recorded as expenditures.

NOTE D - CASH AND INVESTMENTS

Deposits are held at Northwestern Bank, Alden State Bank, Forest Area Credit Union, Allstate Bank, and Huntington Bank. Michigan Compiled Laws, Section 129.91 authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The risk disclosures for the Kalkaska Public Transit Authority's deposits, as required by GASB Statement No. 3, are as follows:

<u>Cash</u>	<u>Financial Institution Balance</u>	<u>Carrying Balances</u>
Imprest	\$ -0-	\$ 100
Deposits Insured (FDIC)	639,624	508,540
Deposits - Uninsured	<u>1,164,868</u>	<u>903,144</u>
Total Deposits and Imprest Cash	<u>\$ 1,804,492</u>	<u>\$ 1,411,784</u>
<u>Investments</u>	<u>Market Value</u>	<u>Carrying Amount</u>
Non-Categorized Investment Pool	\$ 236	\$ 236
Total Investments	<u>\$ 236</u>	<u>\$ 236</u>
Total Cash and Investments	<u>\$ 1,804,728</u>	<u>\$ 1,412,020</u>

The Transit Authority has investments with Allstate Financial Services, LLC in their municipal investment fund, which is an investment pool. The nature of the investment pool does not allow for risk categorization, which is in accordance with GASB Statement No. 3. The investments are considered to be cash equivalents.



KALKASKA PUBLIC TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE D - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

KALKASKA PUBLIC TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Balance 10/1/06	Additions	Deductions	Balance 9/30/07
Land	\$ 10,000	\$ -0-	\$ -0-	\$ 10,000
Building and Improvements	1,181,868	37,807	-0-	1,219,675
Vehicles	1,499,043	-0-	30,028	1,469,015
Shop Equipment	133,294	-0-	-0-	133,294
Office Equipment	109,733	-0-	-0-	109,733
Totals	<u>\$2,933,938</u>	<u>\$ 37,807</u>	<u>\$ 30,028</u>	\$ 2,941,717
Accumulated Depreciation	<u>\$1,738,321</u>	<u>\$ 245,196</u>	<u>\$ 30,028</u>	<u>\$ 1,953,489</u>
Net Property and Equipment				<u>\$ 988,228</u>

The total depreciation expense for fiscal year ending September 30, 2007 was \$245,196. The eligible depreciation of \$16,537 (\$245,196 total depreciation less ineligible depreciation \$228,659) includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the Bureau of Passenger Transportation.

Useful lives of depreciable assets are as follows:

Buses & rehabilitations	3-10 years
Operations equipment	5-10 years
Garage equipment	5-12 years
Office equipment	5-12 years
Computer equipment	5 years
Building	4-20 years

KALKASKA PUBLIC TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE F - EMPLOYEE PENSION PLAN

The Kalkaska Public Transit Authority participated in a defined contribution pension plan through December 31, 1999. The plan covered substantially all full-time employees of the Authority. The Authority contributed 7.5% of all employees base compensation to the plan annually. All benefits vested immediately and were credited to each participant's account. As of January 1, 2000 the Authority began participating in a defined benefit retirement plan administered by the Municipal Employees Retirement System (MERS). The entire balance in the previous pension plan of \$156,858 was transferred to the MERS on February 15, 2000. In addition, the Authority contributed \$327,951 to fund the buy in and first year contribution.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report can be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Employees of the Authority age 55 with 15 or more years of credited service are eligible for retirement. The plan adopted requires a 2% match from each participating employee's compensation.

The normal cost and amortization payments were determined using the entry age normal actuarial funding method. Actuarial assumptions include (a) projected salary and wage increases of 4.5%, (b) a net long-term investment yield rate of 8%, and (c) 1994 Group Annuity Mortality Tables.

Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over 30 years.

KALKASKA PUBLIC TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE F - EMPLOYEE PENSION PLAN (CONTINUED)

Components of the Actuarial Accrued Liability at December 31, 2006, the last date of Annual Actuarial Valuation, are as follows:

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 920,247
Terminated employees (vested former members) not yet receiving benefits	243,490
Non-vested terminated employees	4,770
Current employee contributions - Including allocated investment income	15,293
Employer financed contributions - Including allocated investment income	<u>209,267</u>
Total Actuarial Accrued Liability	1,393,067
Net Assets Available for Benefits at Actuarial Value (Market Value \$1,052,610)	<u>1,038,088</u>
Unfunded Actuarial Accrued Liability	<u>\$ 354,979</u>
Unfunded Actuarial Accrued Liability as a Percent of fiscal 2006 covered payroll	<u>157%</u>

For fiscal year beginning October 1, 2008, the Annual Required Contribution is \$50,832. The Amortization Factor Used was 0.054719.

Trend information of Aggregate Accrued Liabilities follows:

Valuation Date	2006	2005	2004
Accrued Liabilities	<u>\$1,393,067</u>	<u>\$1,308,189</u>	<u>\$ 1,177,619</u>
Valuation Assets	<u>\$1,038,088</u>	<u>\$ 992,334</u>	<u>\$ 916,726</u>
Funded Percent	<u>75%</u>	<u>76%</u>	<u>78%</u>
Unfunded Actuarial Liability	<u>\$ 354,979</u>	<u>\$ 315,855</u>	<u>\$ 260,893</u>
Unfunded Actuarial Liability as a Percent of Annual Payroll	<u>157%</u>	<u>161%</u>	<u>86%</u>

KALKASKA PUBLIC TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE G - STATE GRANTS

The Transit has contracted with the State of Michigan for grant funds for operations and equipment. All of the monies that the Public Transit is now eligible to receive have not been disbursed to them as the projects have not been completed. As of September 30, 2007, \$545,529 is still available to the Transit under those grants.

NOTE H - RISK MANAGEMENT / SELF-INSURANCE PROGRAMS

The Transit is covered under the County's participation in risk management pools and self-insurance programs. The Transit reimburses the County annually for its share of the premiums.

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a state pool member and has deductibles which differ for each type of coverage.

The County has insurance coverage for workers' compensation provided by an independent insurance company which is licensed in the State of Michigan.

KALKASKA PUBLIC TRANSIT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2007

NOTE I - CONTRIBUTED CAPITAL

The Contributed Capital equity account represents funds provided by the federal Government and State of Michigan to the Authority, to purchase buildings, buses and equipment. Depreciation on buildings, buses and equipment purchased with State and Federal Funds is charged against this account. Depreciation of fixed assets purchased with Contributed Capital for the same period, was \$50,593.

Effective for fiscal years beginning after July 2000, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings. For the year ended September 30, 2007, \$37,807 of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of September 30, 2001 have not been restated, and will continue to be amortized over the lives of the related fixed assets until entirely depleted.

NOTE J - COST ALLOCATION PLANS

The Kalkaska Public Transit Authority had three cost allocation plans in use for the year ended September 30, 2007 that had been approved by the BPT. Those cost allocations were for charter services, vehicle maintenance and regional transportation. These cost allocation plans were adhered to in the preparation of the financial statements.

NOTE K - EXPLANATION OF INELIGIBLE EXPENSES PER THE BPT R&E MANUAL

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87.

NOTE L - NONFINANCIAL DATA

The methodology used for compiling mileage on Schedule 8 - Mileage Data is an adequate and reliable method for recording vehicle mileage.

NOTE M - CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the Transit agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Transit agency expects such amounts, if any, to be immaterial.

## **SUPPLEMENTAL INFORMATION**

**SCHEDULE 1**

KALKASKA PUBLIC TRANSIT AUTHORITY  
OPERATING REVENUES  
YEAR ENDED SEPTEMBER 30, 2007

## Operating Revenues

Demand-response (farebox)	\$ 167,902
Maintenance services	<u>3,215</u>
Total Operating Revenues	<u><u>\$ 171,117</u></u>



**SCHEDULE 2**

KALKASKA PUBLIC TRANSIT AUTHORITY  
OPERATING EXPENSES  
YEAR ENDED SEPTEMBER 30, 2007

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
Labor				
Operators' salaries and wages	\$ 120,940	\$ 70,047	\$ 59,160	\$ 250,147
Dispatchers' salaries and wages	47,131	-0-	-0-	47,131
Fringe Benefits				
Other fringe benefits	56,885	23,708	20,023	100,616
Pension	234,385	97,685	82,502	414,572
Services				
Advertising	-0-	-0-	491	491
Audit	-0-	-0-	3,400	3,400
Other services	2,648	-0-	-0-	2,648
Materials and Supplies Consumed				
Fuel and lubricants	52,590	-0-	-0-	52,590
Tires and tubes	988	-0-	-0-	988
Other materials and supplies	-0-	15,328	4,219	19,547
Utilities	-0-	-0-	19,871	19,871
Casualty and Liability Costs	13,409	-0-	1,380	14,789
Miscellaneous Expenses				
Travel, meetings & training	-0-	-0-	370	370
Depreciation & Amortization	<u>241,475</u>	<u>1,655</u>	<u>2,066</u>	<u>245,196</u>
Total Expenses	<u>\$ 770,451</u>	<u>\$ 208,423</u>	<u>\$ 193,482</u>	<u>\$ 1,172,356</u>

**SCHEDULE 3**

KALKASKA PUBLIC TRANSIT AUTHORITY  
NONOPERATING REVENUES  
YEAR ENDED SEPTEMBER 30, 2007

Local Operating Grants	
Tax Levy	<u>\$ 168,316</u>
Subtotal Local Operating Grants	<u>168,316</u>
State of Michigan Operating Grants	
Formula Operating Assistance (Act 51)	<u>360,414</u>
Subtotal State of Michigan Operating Grants	<u>360,414</u>
Federal Operating Grants	
U.S. DOT Operating Grant - Section 5311	<u>123,029</u>
Subtotal Federal Operating Grants	<u>123,029</u>
Capital Grant Revenues	<u>37,807</u>
Interest Income	<u>63,720</u>
Total Nonoperating Revenues	<u><u>\$ 753,286</u></u>

**SCHEDULE 4**

KALKASKA PUBLIC TRANSIT AUTHORITY  
SCHEDULE OF CONTRIBUTED EQUITY  
YEAR ENDED SEPTEMBER 30, 2007

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Balance, October 1, 2006	\$ 418,748	\$ 160,933	\$ 579,681
Deduct:			
Depreciation on assets purchased from contributed equity	<u>36,708</u>	<u>13,885</u>	<u>50,593</u>
Balance, September 30, 2007	<u>\$ 382,040</u>	<u>\$ 147,048</u>	<u>\$ 529,088</u>

**SCHEDULE 5**

**KALKASKA PUBLIC TRANSIT AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE GRANTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Federal and State Grantor/Pass-Through	Federal CFDA Number	Grant Number	Program Award Amount	Current Year Expenditures			Prior Year Expend- itures	Award Amount Remaining
				Total	Federal	State		
Passed Through Michigan Department of Transportation								
Operating Assistance - Section 5311	20.509	07-0240/Z1	<u>\$ 123,029</u>	<u>\$ 123,029</u>	<u>\$ 123,029</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Federal Transit Capital Grants	20.500							
Capital Grant		02-0057/Z10	60,736	37,807	37,807	-0-	2,400	20,529
Capital Grant		02-0057/Z12	495,000	-0-	-0-	-0-	-0-	495,000
Capital Grant		02-0240/Z2	<u>30,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>30,000</u>
Total Capital Grants			<u>585,736</u>	<u>37,807</u>	<u>37,807</u>	<u>-0-</u>	<u>2,400</u>	<u>545,529</u>
Michigan Department of Transportation								
Non Urban Operating Assistance - Act 51								
Current Year	N/A	N/A	363,222	363,222	-0-	363,222	-0-	-0-
Prior Year Grant Adjustments	N/A		<u>-0-</u>	<u>(2,808)</u>	<u>-0-</u>	<u>(2,808)</u>	<u>-0-</u>	<u>-0-</u>
Total State Operating Assistance			<u>363,222</u>	<u>360,414</u>	<u>-0-</u>	<u>360,414</u>	<u>-0-</u>	<u>-0-</u>
Total Federal and State Grants			<u>\$1,071,987</u>	<u>\$ 521,250</u>	<u>\$ 160,836</u>	<u>\$ 360,414</u>	<u>\$ 2,400</u>	<u>\$ 545,529</u>

# SCHEDULE 6

## KALKASKA PUBLIC TRANSIT AUTHORITY NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS YEAR ENDED SEPTEMBER 30, 2007

	2007-0240/Z1 Federal <u>Section 5311</u>	State Operating <u>Assistance</u>
Expenses		
Labor	\$ 297,278	\$ 297,278
Fringe benefits	515,188	515,188
Services	6,539	6,539
Materials & supplies	73,125	73,125
Utilities	19,871	19,871
Casualty & liability	14,789	14,789
Miscellaneous	370	370
Depreciation	<u>245,196</u>	<u>245,196</u>
Total Expense	<u>1,172,356</u>	<u>1,172,356</u>
Less Ineligible Expenses		
Depreciation	228,659	228,659
Audit Fee	3,400	-0-
Non Transportation Revenues	<u>3,215</u>	<u>3,215</u>
Total Ineligible Expense and Project Revenue	<u>235,274</u>	<u>231,874</u>
Net Eligible Expenses	<u>\$ 937,082</u>	<u>\$ 940,482</u>
Maximum Section 5311 Reimbursement (17.0%) (Not to exceed \$123,029)	<u>\$ 123,029</u>	
State Operating Assistance		<u>\$ 363,222</u>

Federal Section 5311 expenses are only those expenses incurred in providing service to non-urbanized areas. The State Operating Assistance is computed at 38.6208% of the current eligible expenses for the year ended September 30, 2007.

KALKASKA PUBLIC TRANSIT AUTHORITY  
DETAIL OF INELIGIBLE EXPENSES AND REVENUES  
SEPTEMBER 30, 2007

Depreciation

Depreciation accrued from assets funded by capital grants is considered ineligible in accordance with the Bureau of Passenger Transportation's Revenue and Expense manual.

Non Transportation Revenues

The Transit Authority provides maintenance services to several departments of Kalkaska County in accordance with a vehicle maintenance cost allocation plan. The revenues from these services was considered ineligible in accordance with the BPT R&E Manual.

Annual Audit Fees

Any Transit Agency that expends less than \$500,000 in federal funds must subtract out the cost of the annual audit as an ineligible expense under Section 5311. Therefore, \$3,400 has been treated as an ineligible expense for Section 5311 purposes.

**SCHEDULE 8**

KALKASKA PUBLIC TRANSIT AUTHORITY  
MILEAGE DATA - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2007

	Public Transportation Mileage
DEMAND RESPONSE	
1st Quarter	54,503
2nd Quarter	61,983
3rd Quarter	57,249
4th Quarter	<u>34,720</u>
TOTAL OPERATIONS	<u><u>208,455</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

December 13, 2007

Board of Directors  
Kalkaska Public Transit Authority  
Kalkaska, MI 49646

Dear Board:

I have audited the financial statements of the business-type activity and major fund which collectively comprise the basic financial statements of the Kalkaska Public Transit Authority for the year ended September 30, 2007, and have issued my report thereon dated December 13, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Kalkaska Public Transit Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Kalkaska Public Transit Authority's internal control over financial reporting.

MEMBER MACPA and AICPA



My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

#### Segregation of Duties

The idea of segregation of duties is that two or more persons are part of a process, such as cash disbursements, so that if a mistake is made by one, it will become apparent to another within a reasonable time period.

Currently, the Authority has one person in the bookkeeping staff who is responsible for writing cash receipts received by mail, writing checks, recording cash receipts, cash disbursements, payroll, bank transfers and adjusting journal entries as well as preparing bank reconciliations.

Monthly financial statements, conveyance of bank transfers and cash receipt deposits, and signing of checks are done by Management personnel or the Board of Directors.

With the limited bookkeeping staff, the Authority has an inherent weakness in the internal controls related to the bookkeeping functions. Segregation of these duties should be made on a practical basis.

#### Financial Statement Preparation

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Authority has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statement and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This condition was caused by the Authority's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

A Control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Kalkaska Public Transit Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. I consider the deficiencies described above to be significant deficiencies in internal control over financial reporting.

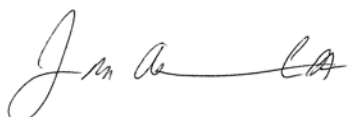
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I consider the segregation of duties to be a material weakness of the significant deficiencies described above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kalkaska Public Transit Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the audit committee, management, and Board of Directors, and is not intended to be, and should not be used by anyone other than these specified parties.



JAMES M. ANDERSON, P.C.  
CERTIFIED PUBLIC ACCOUNTANT



## James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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December 13, 2007

Board of Directors  
Kalkaska Public Transit Authority  
Kalkaska, MI 49646

I have audited the financial statements of the business-type activity and major fund of the Kalkaska Public Transit Authority for the year ended September 30, 2007, and have issued my report thereon dated December 13, 2007. Professional standards require that I provide you with the following information related to my audit.

### My Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in my engagement letter dated December 11, 2007, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Kalkaska Public Transit Authority. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Kalkaska Public Transit Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Kalkaska Public Transit Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the Kalkaska Public Transit Authority during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

MEMBER MACPA and AICPA

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Kalkaska Public Transit Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Kalkaska Public Transit Authority, either individually or in the aggregate, indicate matters that could have a significant effect on Kalkaska Public Transit Authority's financial reporting process.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

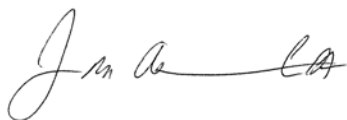
I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Kalkaska Public Transit Authority's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Board of Directors  
Kalkaska Public Transit Authority  
December 13, 2007  
Page 3

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

James M. Anderson, P.C.  
Certified Public Accountant